

DOCUMENT RESUME

ED 178 931

CS 205 277

AUTHOR Jose, Victor
TITLE Testimony of Victor Jose on Behalf of the National Association of Advertising Publishers.
PUB DATE Dec 78
NOTE 14p.; Paper presented at the Federal Trade Commission Symposium on Media Concentration (Washington, D.C., December 14-15, 1978); For related documents, see CS 205 269-278

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Competition; Consumer Protection; *Economic Change; Federal Legislation; *Federal Regulation; Industry; Journalism; *Marketing; *Newspapers; Organization Size (Groups); *Publicize
IDENTIFIERS *Advertising; Monopoly; Ownership

ABSTRACT

This is one of several papers presented at a Federal Trade Commission Symposium on Media Concentration. It describes one journalist's experience owning a free newspaper in the Richmond, Indiana, area and meeting competition when the local daily newspaper was purchased by a chain. It is suggested that methods of curtailing print competition in the Richmond market have proven effective under chain ownership of the daily paper due to a coordinated plan supervised from the chain's headquarters, to the resources available to the chain in talent and money, and to the lack of restraints imposed by any government agency or by company policy. The suggestion is made that banning the entry of daily newspapers into the free circulation business could remove the assurance of high monopoly profit and protect the survival base of independent free papers so they can provide direct, full-scale, and effective competition to the dominant daily papers in local communities. (MKM)

* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *

ED178931

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY.

FEDERAL TRADE COMMISSION

BUREAU OF COMPETITION

MEDIA SYMPOSIUM--WORKSHOP ON MEDIA CONCENTRATION

December 14-15, 1978

Washington, D.C.

Victor Jose

Testimony of Victor Jose
On Behalf Of The
National Association of Advertising Publishers

PERSONAL BACKGROUND

My name is Victor Jose and I represent the National Association of Advertising Publishers, a national trade association of some 600 members publishing over 1100 independent free circulation local publications. I am editor and publisher of THE GRAPHIC, a free circulation publication of approximately 25,000 circulation in Richmond, Indiana.

As to personal history, I was born and raised in Indianapolis, received a B.A. degree from Swarthmore College, served in the U.S. Navy during World War II, received a

"PERMISSION TO REPRODUCE THIS
MATERIAL HAS BEEN GRANTED BY

Victor Jose

TO THE EDUCATIONAL RESOURCES
INFORMATION CENTER (ERIC)."

CS 225277

Masters Degree in Journalism from Medill School, Northwestern University, in 1947, and from 1947 to 1953 held editorial positions on the Chicago City News Bureau, Logansport (IN) Pharos-Tribune and Richmond (IN) Palladium-Item. I am a past president and present Director of the NAAP.

History of the Free Paper in Richmond

While I was working for the daily newspaper in Richmond, so many people kept saying, "What this town needs is another newspaper," that I decided to start one. The result was the West Side Enterprise, a free paper of some 4,500 circulation covering the west side of Richmond.

In 1960, after finally succumbing to the pleas and promises of some of the larger advertisers, I expanded the paper to full area coverage and changed the name to The Graphic. Since the first days of the original paper, it was clear that any free paper's survival depended on guaranteeing complete coverage with a high enough circulation and a low enough rate to attract substantial advertising. On virtually all other scores, a paid paper would have the advantage. With our original paper, we covered only part of the Richmond area but we had a substantial rate advantage. It became increasingly evident that nearly all advertisers, except the very smallest, needed a total coverage paper,

since they served a homogenous market. After expanding coverage with The Graphic, where we retained a lesser rate advantage with a lesser circulation than the daily paper, it became further evident that the larger advertisers needed broader coverage of the greater Richmond market. A lesser rate did not fulfill their needs. In other words, to provide true, first-line competition to the local paid paper, our circulation had to be greater than that of the daily paper. To do so, however, entailed a greater expense than could be recovered through advertising rates, due to inherent advantages of paid papers, such as six-day publication and subscription income of the daily, and innumerable industry and government factors such as the Second Class mailing privilege.

As advertising support gained slowly, we were able to increase Graphic circulation from 20,000 to 25,000, and we began to sell a few ads in combination with a previously established free paper in an adjoining area to the west, the Community Press. In 1974, we began publication of a third paper to the east, the Ohio Graphic, which covered the county just across the state line in Ohio. With these three papers -- for the first time -- we were able to provide full competition to the local daily paper, since the three-paper circulation totalled 38,000 compared with the daily's 30,000.

In January, 1976, Kroger Grocery became the first major advertiser to place ads exclusively in The Graphic -- more than 22 years after our first paper was started. We did not have then, nor do we have now, any other major advertiser exclusively in The Graphic (and most of them not at all).

Enter Chain Ownership

On June 1, 1976, announcement was made of the sale of the Palladium-Item, our local daily newspaper, to the Gannett Company. The following sequence of events can best be summarized:

September 10, 1976: The Gannett management team visited Richmond and sponsored a lunch for civic leaders at which the president of the Gannett Company announced there would be no changes in local management. Also, \$40,000 in gifts for local charities was announced.

November, 1976: A new Circulation Director was appointed.

March, 1977: The local Advertising Director took early retirement for "health reasons" (he later took another job), and a new Advertising Director was brought in.

May, 1977: The local Publisher resigned and a new Publisher was brought in.

[1978: A new Editor and a new Classified Ad Manager have been appointed from the Gannett organization.]

June, 1977: A coordinated public relations campaign moved into high gear, including a speakers bureau, plant tours, free movies for the public, a bumper sticker contest with \$150.00 weekly prizes, a cocktail party for large advertisers, and a Christmas party for small and medium advertisers.

August 1, 1977: The daily paper's multi-page discount was doubled. Color charges were discounted for the first time. Preprint distribution rates were reduced for the first time.

August 3, 1977: The Gannett organization started a free circulation shopper, called the Weekly Item, on a "skip delivery" basis, going to non-subscribers in the Ohio area (only), duplicating Ohio Graphic coverage, with a rate structure virtually the same as the Ohio Graphic.

August 7, 1977: A new Saturday edition of the daily paper was announced, to begin August 13, along with a subscription price increase of 24%.

September 1, 1977: An intensive multi-media campaign was launched by the daily paper to acquire "Garage Sale" ads (one of the mainstays of Graphic readership), priced 64% below price of comparable want ads in the daily paper.

Fall, 1977: A many-faceted campaign was directed toward major advertisers, aided by contacts from the Gannett national advertising organization, and stressing the new saturation coverage plan, or Total Market Coverage (TMC) and combination rates when applicable.

This campaign was successful in at least three cases:

1) In September, 1977, the Ayr-Way Department (regional discount) store terminated all Graphic-Ohio Graphic advertising and began a regular program exclusively with the Palladium-Item (shopper) combination, as of November 12. Estimated loss to Graphic Publications: \$20,000 yearly.

2) Kroger Grocery announced termination of exclusive use of the Graphic-Ohio Graphic combination as of November and switched to the Palladium-Item and Weekly Item combination. The Kroger ad manager explained that the decisive factor in the decision was the saturation coverage (TMC) provided by the Weekly Item. Estimated loss to Graphic Publications: \$60,000 yearly.

3) On November 25, 1977, the K-mart regional ad manager announced termination of all Graphic-Ohio Graphic advertising, along with printing and distribution of advertising supplements, in favor of the Palladium-Item and Weekly Item combination. The ad manager indicated the Weekly Item was a major factor in his decision, along with his preference for paid circulation, and a combination contract created by the daily paper which effectively eliminated any price advantage offered by Graphic Publications by tying in ROP advertising, distribution of all advertising supplements, and local printing of supplements by the daily. Estimated loss to Graphic Publications: \$20,000 - \$50,000 yearly.

CONCLUSIONS

Methods of curtailing print competition in the Richmond market have proved effective, to date, under chain ownership of the daily paper, due principally to a coordinated plan orchestrated from the headquarters office, the resources available to the chain in talent and money, and the lack of restraints imposed by any government agency or by company policy.

In employing its various marketing tactics, the key element is the overriding market power of the daily within a protected geographic market. Tactics that otherwise would be acceptable take on a predatory nature when wielded by a dominant economic unit such as the Gannett company which is in a unique position to enforce its monopoly position.

In the Richmond situation, it is evident that a sophisticated approach -- as opposed to a blunderbus attack -- has been taken, especially in avoiding obvious violations in anti-trust law such as forced combination (tie-in) and below cost sales. All along the line, rates were reduced to match, or nearly match, those the Graphic Publications had in effect or could offer.

Even more effective was establishment of the shopper, or saturation coverage paper to provide Total Market Coverage. Of itself, of course, another free circulation paper is not predatory or unfairly competitive (such as another shopper starting in competition), but in the hands of a daily newspaper that already dominates the market, it becomes a lethal weapon. Other than price (already zeroed-out), a circulation edge is the only other advantage a competing free paper can rely on. When a daily places free circulation into any crucial area, it can swing the pendulum back to itself. Establishment of the shopper in the Richmond area did just that.

No complaint can, should or is being raised against the normal pressures of competition. These are not at issue. Those of us publishing independent free papers are fully aware of these and deal with them every day.

While price, or rate, cutting is not normally a cause for complaint, in the context of enforcing market dominance, it becomes so.

Similarly, competitive free circulation in itself is not a cause for concern, but in the hands of a dominant operator, e.g. a daily newspaper, it is used as a tool to prevent or eliminate competition and thus becomes a predatory weapon of unlimited scope and power.

In the current state of the American press, the free paper is the only possible direct competitor, due to its ability (and necessity) to create circulation on a sufficient scale to attract advertising support.

Since free circulation, or saturation coverage, is the free paper's reason-to-be, its basis of existence, when a dominant daily paper employs free circulation schemes, it takes in hand an economic weapon which contains the power to stifle, prevent or destroy the competition.

Crossing the line into free circulation by paid papers breaks a tradition of more than 100 years and violates

the foundation on which all definitions, privileges and market power of paid papers rest. Although justified under the guise of "serving our customers," recent practice shows an obvious intent to weaken, freeze-out, or destroy its only direct competitor.

The principle of cross-ownership has not been raised, much less applied, in regard to a daily newspaper's starting its own free circulation paper, or buying a competing free paper, in its own market. The time has come for this issue to be raised and examined.

Government policy and judicial precedent are now firmly established in regard to a ban on cross-ownership of electronic media by newspapers in the same local markets.

Also firmly established is the propriety of applying certain regulatory and judicial sanctions to remedy unfair anti-competitive practices by newspaper publishers. (Cf. U.S. v. Associated Press, 1945)

In its June 12, 1978, ruling in the case of National Citizens Committee for Broadcasting v. F.C.C., the U.S. Supreme Court chose not to order divestiture of existing cross-ownerships, but it did not contest or revoke the ruling or principle established by the F.C.C. in requiring "diversity of media" as a significant criterion

in awarding new radio and television licenses. Moreover, it indicated possible further extension of the same principle. Taking note that F.C.C. regulations are quite similar to the prohibitions imposed by antitrust laws, Justice Thurgood Marshall commented that "this court has held that application of the antitrust laws to newspapers is not only consistent with but is actually supportive of the values underlying the First Amendment."

In concert with this judicial ruling, the F.T.C. can likewise take notice that cross-ownership scrutiny can be applied to newspapers to prevent possible anti-competitive situations. Because newspapers are not subject to direct governmental regulations, the F.T.C. is under a more positive mandate to find and enforce methods of fostering competition, and these would ideally be methods of direct competition through the free enterprise system.

The F.T.C. can, and should, take notice that free papers are fulfilling the same competitive function within the local media market as the electronic media, only more directly so and in an indispensable way in relation to newspapers.

RECOGNIZING THE VIOLATION

The F.T.C. can, and should, take notice that when a dominant daily newspaper, enjoying de facto monopoly

status, starts publishing a free circulation paper it is violating the same principle of "diversity in media" which the F.C.C. cross-ownership ban seeks to protect. This is the same rule upheld as reasonable by the U.S. Supreme Court, which strongly implied that newspapers fall within the purview of similar antitrust action. The time has come for enunciation of a rule that cross-ownership of any media within the same local market runs counter to the ideal of a broadly diversified free press and is a violation of antitrust.

Twin problems beset the American press at the present time: 1) Absorption of independent local newspapers into national chains, and 2) Suppression of the only direct print competition in the daily newspaper field. Banning the entry of daily newspapers into the free circulation business would cut the Gordian knot of both of these serious and growing problems by: 1) Removing the assurance of high monopoly profits, which is the critical mass fueling chain expansion, and 2) Protecting the survival base of independent free papers so that they can provide direct, full-scale and effective competition to the dominant daily papers in local communities.

We are the publishers of free papers, are the Invisible Man of the American press. We have been rendered faceless by the Defenders of the Paid Press

(which is everybody that counts) who passionately believe they are protecting the public from the lowest form of journalistic parasites. Invisible we are. Parasites? Well, not unless one believes that each community "belongs" to the paper already there. Rather, we would claim our invisibility to be more like Adam Smith's "Invisible Hand" that spreads the maximum benefits to the greatest number of people in a free enterprise system.